

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Drummond Island Township	County Chippewa
Audit Date 3/31/05	Opinion Date 6/29/05	Date Accountant Report Submitted to State: 8/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature 		Date 8/10/05	

DRUMMOND ISLAND TOWNSHIP

BASIC FINANCIAL STATEMENTS

March 31, 2005

DRUMMOND ISLAND TOWNSHIP

ELECTED OFFICIALS

TOWNSHIP SUPERVISOR

FRANK SASSO

TOWNSHIP TREASURER

GEORGIANNA POTTER

TOWNSHIP CLERK

KATHERINE COULTER

TOWNSHIP TRUSTEE

EARL BAILEY

TOWNSHIP TRUSTEE

BLAINE TISCHER

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Township of Drummond Island
Drummond Island, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Drummond Island Township as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 5 to the financial statements, management has not recorded certain general infrastructure and capital assets, and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure and capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Drummond Island Township, as of March 31, 2005, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Drummond Island Township, as of March 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10, the Township has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments, as amended and interpreted, as of April 1, 2004.

The Township has not presented the Management’s Discussion and Analysis information that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 29, 2005

Basic Financial Statements

Drummond Island Township

Statement of Net Assets March 31, 2005

	Governmental Activities
ASSETS:	
Current Assets	
Cash & Equivalents	\$ 469,241
Internal Loans	1,495
Other Assets	957
	<hr/>
TOTAL ASSETS	<u>\$ 471,693</u>
LIABILITIES & NET ASSETS:	
Current Liabilities	
Capital Leases	<u>\$ 6,177</u>
Noncurrent Liabilities	
Capital Leases	<u>6,455</u>
	<hr/>
TOTAL LIABILITIES	<u>12,632</u>
NET ASSETS:	
Invested in Capital Assets - Net of Related Debt	(12,632)
Unrestricted	<u>471,693</u>
	<hr/>
TOTAL NET ASSETS	<u>\$ 459,061</u>

Drummond Island Township

Statement of Activities For the Year Ended March 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Legislative	\$ 3,875	\$ -	\$ -	\$ -	\$ (3,875)
General Government	139,350	37,566	6,287	-	(95,497)
Public Safety	16,724	1,100	19,190	5,144	8,710
Public Works	260,046	248	-	-	(259,798)
Health & Welfare	32,969	-	-	-	(32,969)
Recreation & Culture	131,031	84,340	-	-	(46,691)
Other Expenses	138,795	-	-	-	(138,795)
Total Governmental Activities	<u>722,790</u>	<u>123,254</u>	<u>25,477</u>	<u>5,144</u>	(568,915)
General Revenues:					
Taxes					491,522
State Revenue Sharing					66,416
Other					33,502
Investment Earnings (Loss)					<u>10,341</u>
Total General Revenues					<u>601,781</u>
Change in Net Assets					32,866
Net Assets - Beginning					<u>426,195</u>
Net Assets - Ending					<u>\$ 459,061</u>

See accompanying notes to financial statements.

Drummond Island Township

Balance Sheet Governmental Funds March 31, 2005

	General	Road Improvement	Non-major Governmental	Total Governmental Funds
ASSETS:				
Cash & Equivalents	\$ 172,773	\$ 259,003	\$ 37,465	\$ 469,241
Due from Other Funds	1,495	162,032	11,277	174,804
Other Assets	957	-	-	957
TOTAL ASSETS	\$ 175,225	\$ 421,035	\$ 48,742	\$ 645,002
LIABILITIES:				
Due to Other Funds	172,366	-	943	173,309
TOTAL LIABILITIES	172,366	-	943	173,309
FUND BALANCES:				
Unreserved:				
Undesignated	2,859	-	-	2,859
Designated	-	421,035	47,799	468,834
TOTAL FUND BALANCES	2,859	421,035	47,799	471,693
TOTAL LIABILITIES AND FUND BALANCES	\$ 175,225	\$ 421,035	\$ 48,742	
Reconciliation to amounts reported for governmental activities in the statement of net assets:				
Long-term lease payable for governmental activities				(12,632)
Net assets of governmental activities				\$ 459,061

Drummond Island Township

Statement of Changes in Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended March 31, 2005

	General	Road Improvement	Non-major Governmental	Totals Governmental Funds
REVENUES:				
Taxes	\$ 186,966	\$ 268,406	\$ 36,150	\$ 491,522
Federal Sources	7,287	-	-	7,287
State Sources	69,958	-	-	69,958
Local Sources	19,190	-	-	19,190
Charges for Services	123,006	-	248	123,254
Interest on Deposits	10,341	-	-	10,341
Other Revenue	31,548	-	2,556	34,104
TOTAL REVENUES	448,296	268,406	38,954	755,656
EXPENDITURES:				
Legislative	3,875	-	-	3,875
General Government	139,350	-	-	139,350
Public Safety	16,724	-	-	16,724
Health & Welfare	32,969	-	-	32,969
Public Works	27,496	232,550	-	260,046
Recreation & Culture	130,743	-	-	130,743
Capital Outlay	33,921	-	27,255	61,176
Other Expenditures	84,366	-	-	84,366
TOTAL EXPENDITURES	469,444	232,550	27,255	729,249
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(21,148)	35,856	11,699	26,407
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	40,000	-	17,255	57,255
Operating Transfers Out	(17,255)	-	(40,000)	(57,255)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	1,597	35,856	(11,046)	26,407
FUND BALANCES, APRIL 1	1,262	385,179	58,845	445,286
FUND BALANCES, MARCH 31	\$ 2,859	\$ 421,035	\$ 47,799	\$ 471,693

Drummond Island Township

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended March 31, 2005

Net Changes in fund balances - total governmental funds	\$ 26,407
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The change in net assets reported for governmental activities in the statement of activities is different because:

Principal repayments:	
Capital lease	<u>6,459</u>

Changes in net assets of governmental activities	<u><u>\$ 32,866</u></u>
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Drummond Island Township

Statement of Fiduciary Net Assets Fiduciary Funds March 31, 2005

	<u>Current Tax Collection Fund</u>
ASSETS:	
Cash & Equivalents	<u>\$ 684,285</u>
 TOTAL ASSETS	 <u><u>\$ 684,285</u></u>
LIABILITIES:	
Due to General Fund	\$ 1,495
Due to Other Governmental Units	<u>682,790</u>
 TOTAL LIABILITIES	 <u><u>\$ 684,285</u></u>

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Drummond Island Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Township:

A – Reporting Entity:

Financial Reporting Entity

Drummond Island Township ("The Township") is a regular law Michigan township located in the eastern portion of Michigan's Upper Peninsula.

The Township operates under an elected Board of Trustees and provides services to its residents in many areas including fire protection, community enrichment and development and health services.

The Township, for financial purposes, includes all of the funds relevant to the operations of Drummond Island Township. The financial statements herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from Drummond Island Township.

B – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable – Current or Property Taxes

The Drummond Island Township property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in the Drummond Island Township as of the preceding December 31st.

The 2004 taxable valuation of the Drummond Island Township totaled \$82,365,190 on which ad valorem taxes levied consisted of 1.578 mills for the Township operating, 2.6854 mills for Roads, .2493 mills for Library, raising \$129,956 for operating, \$221,167 for Roads, and \$20,517 for Library. These amounts are recognized in the respective General and Special Revenue Fund financial statements as tax revenue.

The Township reports the following major governmental funds:

General Fund

This is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Road Millage Fund

This fund accounts for activities that create and maintain roads within Drummond Island Township.

Additionally, the Township reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D - Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Deposits are recorded at cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Payments made to vendors for services that will benefit periods beyond March 31, 2005, are recorded as prepaid items.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the respective grants.

Interfund Transfers – During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by Township management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- a. Each March, after receiving input from the individual departments, the Board prepares a proposed operating budget for the fiscal period commencing April 1 and lapses on March 31. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through a resolution passed by the Township Board.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Trustees. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Township does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Trustees during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Cash and Cash Equivalents - Unrestricted	\$ 469,241	\$ 684,285

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Bank Deposits (checking and savings accounts	\$ 168,051	\$ 684,285
Certificates of Deposit	300,690	-
Cash on Hand	<u>500</u>	<u>-</u>
Total	<u>\$ 469,241</u>	<u>\$ 684,285</u>

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the Township to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the carrying amount of the Township's primary and fiduciary deposits was \$1,153,026 and the bank balance was \$1,153,844. Of the bank balance, \$170,530, approximately 15%, was covered by federal depository insurance according to FDIC regulations.

These deposits are in one financial institution in varying amounts. All accounts are in the name of the Township and specific funds. They are recorded in Township records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Drummond Island Township reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

	DUE TO OTHER FUNDS		
	General Fund	All Others	Totals
DUE FROM OTHER FUNDS			
General Fund	\$ -	\$ 1,495	\$ 1,495
Road	162,032	-	162,032
All Others	10,334	943	11,277
Total	<u>\$ 172,366</u>	<u>\$ 2,438</u>	<u>\$ 174,804</u>

Interfund Transfers:

	TRANSFERS OUT		
	General Fund	Library Fund	Totals
TRANSFERS IN			
General Fund	\$ -	\$ 40,000	\$ 40,000
Golf Course Fund	17,255	-	17,255
Total	<u>\$ 17,255</u>	<u>\$ 40,000</u>	<u>\$ 57,255</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 5 - CAPITAL ASSETS

The Township has not recorded Capital Assets. U.S. Generally Accepted Accounting Principles requires that governmental units record and depreciate capital assets.

NOTE 6 - RISK MANAGEMENT

Risk Management – The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Township joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its general insurance coverage.

The Township continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Township is unable to provide an estimate of the amounts of additional assessments.

NOTE 7 - CONTINGENT LIABILITIES

The Township has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Township. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Township at March 31, 2005.

NOTE 8 - LEASES

Capital Leases – The Township has entered into a lease agreement for financing the purchase of a lawn mower for the golf course. The lease agreements qualify as a capital lease for accounting purposes and, therefore has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

<u>Year Ended March 31</u>	
2006	\$ 6,747
2007	<u>6,747</u>
Total Minimum Leases Payments	13,494
Less: Amount Representing Interest	<u>(862)</u>
Present Value	<u>\$ 12,632</u>

NOTE 9 - BUDGET VIOLATIONS:

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts were as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Road Improvement Fund:			
Public Works	\$ -	\$ 232,550	\$ (232,550)

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLE:

Effective April 1, 2004, the Township implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

Required Supplemental Information

Drummond Island Township

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended March 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 141,700	\$ 154,700	\$ 186,966	\$ 32,266
Federal Sources	8,000	8,000	7,287	(713)
State Sources	63,000	73,500	69,958	(3,542)
Local Sources	17,000	19,000	19,190	190
Charges for Services	136,650	136,500	123,006	(13,494)
Interest on Deposits	29,600	39,921	10,341	(29,580)
Other Revenue	48,800	40,800	31,548	(9,252)
TOTAL REVENUES	444,750	472,421	448,296	(24,125)
EXPENDITURES:				
Legislative:				
Township Board	3,900	3,875	3,875	-
General Government:				
Supervisor	12,600	13,034	12,606	428
Elections	4,800	3,400	3,153	247
Clerk	21,300	17,926	17,644	282
Assessor	23,734	23,734	23,574	160
Treasurer	30,750	26,226	26,190	36
Office	7,650	5,605	5,541	64
Township Hall	50,000	42,044	35,646	6,398
Board of Review	1,900	1,900	1,615	285
Cemetery	5,599	5,484	5,387	97
General Maintenance & Repair	17,935	7,994	7,994	-
Total General Government	176,268	147,347	139,350	7,997
Public Safety:				
Police	7,200	7,212	7,211	1
Fire Protection	12,500	9,536	9,458	78
Zoning	500	61	55	6
Total Public Safety	20,200	16,809	16,724	85
Health & Welfare:				
Health Boards & Clinics	24,000	28,948	4,029	24,919
Ambulance	37,550	29,500	28,940	560
Total Health & Welfare	61,550	58,448	32,969	25,479

Drummond Island Township

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended March 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Works:				
Airport	18,000	14,170	10,648	3,522
Street Lighting	4,000	4,102	4,102	-
Waste Collection & Other	15,800	15,800	12,746	3,054
Total Public Works	37,800	34,072	27,496	6,576
Recreation & Culture:				
Various Cultural Activities	7,000	8,077	8,079	(2)
Recreation/parks	21,100	19,100	17,668	1,432
Golf Course	69,850	78,543	78,994	(451)
Museum	8,500	7,015	6,847	168
Library	19,000	19,155	19,155	-
Total Recreation & Culture	125,450	131,890	130,743	1,147
Capital Outlay	1,500	-	33,921	(33,921)
Other:				
Miscellaneous	12,717	19,709	25,150	(5,441)
Insurance	12,065	44,185	59,216	(15,031)
Total Other	24,782	63,894	84,366	(20,472)
TOTAL EXPENDITURES	451,450	456,335	469,444	(13,109)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,700)	16,086	(21,148)	(37,234)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	40,000	(40,000)
Operating Transfers Out	-	-	(17,255)	(17,255)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (6,700)</u>	<u>\$ 16,086</u>	1,597	<u>\$ (94,489)</u>
FUND BALANCE, APRIL 1			1,262	
FUND BALANCE, MARCH 31			<u>\$ 2,859</u>	

Drummond Island Township

Required Supplemental Information Budgetary Comparison Schedule Road Improvement Fund For the Year Ended March 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	268,406	\$ 268,406
TOTAL REVENUES	-	-	268,406	268,406
EXPENDITURES:				
Public Works	-	-	232,550	(232,550)
TOTAL EXPENDITURES	-	-	232,550	(232,550)
EXCESS OF REVENUES OVER EXPENDITURES	-	-	35,856	(35,856)
FUND BALANCE, APRIL 1			385,179	
FUND BALANCE, MARCH 31			\$ 421,035	

Other Supplemental Information

Drummond Island Township

Combining Balance Sheet Nonmajor Governmental Funds Year Ended March 31, 2005

	Special Revenue Funds				Capital Project Funds		
	Fire Savings Fund	Ambulance Fund	Library	Youth Center Fund	Airport Improvement Fund	Golf Course Fund	Totals
ASSETS:							
Cash & Equivalents	\$ 1,709	\$ 4,183	\$ 23,816	\$ 846	\$ 5,789	\$ 1,122	\$ 37,465
Due from Other Funds	-	69	5,530	-	5,678	-	11,277
TOTAL ASSETS	<u>\$ 1,709</u>	<u>\$ 4,252</u>	<u>\$ 29,346</u>	<u>\$ 846</u>	<u>\$ 11,467</u>	<u>\$ 1,122</u>	<u>\$ 48,742</u>
LIABILITIES:							
Due to Other Funds	\$ 308	\$ -	-	\$ 9	\$ -	\$ 626	\$ 943
TOTAL LIABILITIES	<u>308</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>-</u>	<u>626</u>	<u>943</u>
FUND BALANCES:							
Unreserved	<u>1,401</u>	<u>4,252</u>	<u>29,346</u>	<u>837</u>	<u>11,467</u>	<u>496</u>	<u>47,799</u>
TOTAL FUND BALANCES	<u>1,401</u>	<u>4,252</u>	<u>29,346</u>	<u>837</u>	<u>11,467</u>	<u>496</u>	<u>47,799</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,709</u>	<u>\$ 4,252</u>	<u>\$ 29,346</u>	<u>\$ 846</u>	<u>\$ 11,467</u>	<u>\$ 1,122</u>	<u>\$ 48,742</u>

Drummond Island Township

Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds March 31, 2005

	Special Revenue Funds				Capital Project Funds		
	Fire Savings Fund	Ambulance Fund	Library	Youth Center Fund	Airport Improvement Fund	Golf Course Fund	Totals
REVENUES:							
Taxes	\$ -	\$ -	\$ 36,150	\$ -	\$ -	\$ -	\$ 36,150
Charges for Services	-	-	-	-	248	-	248
Other Revenue	-	100	-	-	2,456	-	2,556
TOTAL REVENUES	-	100	36,150	-	2,704	-	38,954
EXPENDITURES:							
Capital Outlay	-	-	-	-	10,000	17,255	27,255
TOTAL EXPENDITURES	-	-	-	-	10,000	17,255	27,255
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	100	36,150	-	(7,296)	(17,255)	11,699
OTHER FINANCING SOURCES (USES):							
Operating Transfer In	-	-	-	-	-	17,255	17,255
Operating Transfer Out	-	-	(40,000)	-	-	-	(40,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	100	(3,850)	-	(7,296)	-	(11,046)
FUND BALANCES, APRIL 1	1,401	4,152	33,196	837	18,763	496	58,845
FUND BALANCES, MARCH 31	\$ 1,401	\$ 4,252	\$ 29,346	\$ 837	\$ 11,467	\$ 496	\$ 47,799



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Board of Trustees
Drummond Island Township
Drummond Island, Michigan 49726

We have audited the financial statements of Drummond Island Township for the year ended March 31, 2005, and have issued our reports thereon dated June 29, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of Drummond Island Township. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by Drummond Island Township are described in Note 1. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by Drummond Island Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually or in the aggregate, have a significant effect on the financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Drummond Island Township or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Drummond Island Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

In planning and performing our audit of the basic financial statements of Drummond Island Township, for the year ended March 31, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. We noted instances of noncompliance with laws and regulations involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants as indicated below. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Drummond Island Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness:

Reportable Conditions

Capital Assets – The Township does not maintain a detail listing of its capital assets. The capital assets of the Township also are not recorded in the accounting records as required by accounting principles generally accepted in the United States of America. To strengthen control over the Township's capital assets and to be in compliance with GAAP, the Township should develop a current listing of capital assets. Each item on the list should be recorded at its historical cost or estimated cost (if historical cost cannot be determined) and depreciated over its useful life. Under GASB Statement No. 34, capital assets are required to be recorded. There should be determinable values of cost, accumulated depreciation, and current year depreciation expense.

Reportable Conditions (Continued)

The Township has not adopted a capitalization policy. It is recommended the Township adopt a policy establishing a threshold amount to determine which assets should be depreciated.

We also noted the following reportable conditions that are not believed to material weaknesses:

Disbursements (prior comment) - The Board of Trustees does not approve all disbursements as they are made. They approve disbursements at the beginning of the month after they have been disbursed. All disbursements should be approved before payment is made.

Status: No Change

Fund Level Accounting (prior comment) – The current accounting system presents combined financial statement information only. The reporting software should be modified to report statements at the appropriate fund level for the special revenue and capital project funds.

Status: No Change

Tax Distribution (prior comment) – The Township had been delinquent in distributing tax collections that are collected for other units of government. Michigan law requires that tax collections be distributed in 10 working days of receipt from the taxpayers. The township should distribute collections within the timeline permitted.

Status: Corrected.

Trust and Agency Funds (prior comment) – The general trust and agency fund and winter tax account are not included in the general ledger. These funds should be established to assure proper reconciliation and reporting of the fund financial information.

Status: No Change

Payroll (prior comment) – Employees have not updated Form W-4 Payroll Income Tax Withholding for 2005. Additionally, Form I-9, proof of citizenship should be completed for all employees hired after 1987. The clerk should review all payroll files to assure current forms are utilized. Wages reported on Form 941 did not agree to wages reported on the ledger. A quarterly reconciliation should be prepared to assure proper reporting of wages to the Internal Revenue Service.

Status: No Change

Reportable Conditions (Continued)

Dual Signatures (prior comment) – Currently, only one signature is required on all checks. To strengthen internal controls over disbursements and provide additional review of expenditures, the Board should consider requiring two signatures on all checks written. This provides protection to elected officials, that two individuals have authorized each disbursement.

Status: No Change

Board Minutes (prior comment) – The board minutes do not contain a list of attendees, detail of payment approvals, formal listing of actions and approved agenda's. The Board should institute a sign in sheet, formal list in the minutes the elected officials present and adopt "Robert's Rules of Order" for formal proceedings.

Status: No Change

Budgeting – Public Act 621 requires that all expenditures are to be budgeted prior to payment. During fiscal 2005, the Board had excess expenditures over amounts appropriated. Additionally, the Board did not adopt budgets in accordance with the state law for the Road Improvement Fund. These funds should be budgeted in accordance with Uniform Budgeting and Accounting Act guidelines.

Conclusion

This report is intended solely for the information of the Board of Trustees, the cognizant audit agency, and other federal and state audit agencies and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 29, 2005